

CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION, AND AUDIT REPORTS AND SCHEDULE RELATED TO OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

Montefiore Medical Center Year Ended December 31, 2012 With Reports of Independent Auditors

Ernst & Young LLP



# Consolidated Financial Statements, Supplementary Information, and Audit Reports and Schedule Related to Office of Management and Budget Circular A-133

Year Ended December 31, 2012

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#### Report of Independent Auditors

The Board of Trustees Montefiore Medical Center

#### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Montefiore Medical Center and its controlled organizations (the Medical Center), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



#### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Montefiore Medical Center and its controlled organizations at December 31, 2012 and 2011, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

#### Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2012 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated March 18, 2013 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Ernst + Young LLP

March 18, 2013, except for the schedule of expenditures of federal awards for which the date is September 27, 2013.

# Consolidated Statements of Financial Position

	December 31			
	2012 2011			
	(In Thousands)			
Assets				,
Current assets:				
Cash and cash equivalents	\$	30,779	\$	26,855
Marketable and other securities		914,410		775,680
Assets limited as to use – marketable securities		48,867		49,440
Receivables for patient care, less allowances for doubtful accounts				
(2012 - \$23,141; 2011 - \$20,850)		159,831		161,779
Other receivables		52,456		49,784
Estimated insurance claims receivable, current portion		73,189		73,115
Other current assets		29,548		31,157
Total current assets	-	1,309,080		1,167,810
Assets limited as to use:				
Marketable and other securities:				
Sinking funds		68,706		64,257
Employee deferred compensation plan		15,220		12,154
Marketable and other securities externally designated		111,929		94,766
Malpractice insurance programs		111,525		19,421
Total non-current assets limited as to use		195,855		190,598
		•		
Marketable securities held as collateral		5,880		6,040
Property, buildings and equipment, at cost, net		775,882		738,541
Estimated insurance claims receivable, net of current portion		414,740		414,320
Deferred financing costs and other non-current assets		139,965		114,049
Total assets	\$	2,841,402	\$	2,631,358
Liabilities and net assets				
Current liabilities:				
Trade accounts payable	\$	93,992	\$	81,057
Other payables and accrued expenses		208,159		202,388
Accrued salaries, wages and related items		203,927		183,435
Estimated insurance claims liabilities, current portion		73,189		73,115
Current portion of long-term debt		41,742		39,356
Total current liabilities	<u> </u>	621,009		579,351
Long-term debt, less current portion		537,025		550,610
Non-current defined benefit and postretirement health plan and insurance liabilities		257,537		236,114
Employee deferred compensation		15,220		12,154
Estimated insurance claims liabilities, net of current portion		414,740		414,320
Other non-current liabilities		303,834		285,457
Total liabilities		2,149,365		2,078,006
Commitments and contingencies		, ,,,,,,,		, ,
-				
Net assets:		500 00 <b>5</b>		455.200
Unrestricted		592,387		455,208
Temporarily restricted		74,300		72,794
Permanently restricted		25,350		25,350
Total net assets		692,037		553,352
Total liabilities and net assets	\$	2,841,402	\$	2,631,358

# Consolidated Statements of Operations

	Year Ended December 3 2012 2011				
	(In The	ousands)			
Operating revenue					
Net patient service revenue	\$ 2,903,751	\$ 2,769,846			
Grants and contracts	73,650	72,656			
Contributions	4,627	4,594			
Other revenue	102,429	102,604			
Total operating revenue	3,084,457	2,949,700			
Operating expenses					
Salaries and wages	1,384,336	1,336,865			
Employee benefits	418,609	392,516			
Supplies and other expenses	1,044,221	1,020,587			
Depreciation and amortization	110,268	100,824			
Interest	26,817	28,010			
Total operating expenses	2,984,251	2,878,802			
Income from operations before certain items	100,206	70,898			
Net realized and changes in unrealized gains (losses)					
on marketable and other securities	35,254	(11,558)			
Malpractice insurance program adjustments associated					
with investment gains (losses)	16,958	(25,894)			
Medical resident tax recovery	10,342				
Income from operations	162,760	33,446			
Change in defined benefit pension and other postretirement					
plan liabilities to be recognized in future periods	(26,495)	(4,509)			
Net assets released from restrictions used for purchases of					
property, buildings, and equipment	914	3,861			
Increase in unrestricted net assets	\$ 137,179	\$ 32,798			

# Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2012 and 2011

			Te	mporarily	Per	rmanently	
	Un	restricted	R	estricted	R	estricted	
	N	et Assets	N	et Assets	N	et Assets	Total
				(In Tho	usar	nds)	
Net assets at January 1, 2011	\$	422,410	\$	72,444	\$	25,350	\$ 520,204
Increase in unrestricted net assets		32,798		_		_	32,798
Restricted gifts, bequests, and							
similar items		_		8,595		_	8,595
Investment income		_		430		_	430
Net assets released from							
restrictions		_		(8,675)		_	(8,675)
Changes in net assets		32,798		350		_	33,148
Net assets at December 31, 2011		455,208		72,794		25,350	553,352
Increase in unrestricted net assets		137,179		_		_	137,179
Restricted gifts, bequests, and							
similar items		_		6,226		_	6,226
Investment income		_		570		_	<b>570</b>
Net assets released from							
restrictions		_		(5,290)		_	(5,290)
Changes in net assets		137,179		1,506		_	138,685
Net assets at December 31, 2012	\$	592,387	\$	74,300	\$	25,350	\$ 692,037

# Consolidated Statements of Cash Flows

	Year Ended December 31 2012 2011			
	(In Thousands)			
Operating activities	ф	120 (05	Φ	22 1 40
Increase in net assets	\$	138,685	\$	33,148
Adjustments to reconcile increase in net assets to				
net cash provided by operating activities:		110.000		100.024
Depreciation and amortization		110,268		100,824
Change in defined benefit pension and other postretirement		26.405		4.500
plan liabilities to be recognized in future periods		26,495		4,509
Net realized gains		(5,615)		(1,622)
Change in net unrealized (gains) losses		(29,639)		13,180
Equity earnings from investments		(12,450)		(11,209)
Amortization of long-term mortgage premium		(985)		(1,033)
Changes in operating assets and liabilities:				
Receivables for patient care		1,948		1,815
Non-current defined benefit and postretirement health plan and				
insurance liabilities		21,423		36,518
Other non-current liabilities		9,667		30,967
Net change in all other operating assets and liabilities		(323)		(3,122)
Net cash provided by operating activities		259,474		203,975
Investing activities				
Acquisition of property, buildings, and equipment, net		(137,336)		(120,360)
Increase in marketable and other securities, net		(103,476)		(19,926)
Decrease in marketable securities held as collateral, net		160		424
Increase in assets limited to use, net		(4,684)		(30,631)
Net cash used in investing activities		(245,336)		(170,493)
Financing activities				
Payments of long-term debt		(38,379)		(36,672)
Proceeds from long-term debt		28,165		17,528
Net cash used in financing activities		(10,214)		(19,144)
Net increase in cash and cash equivalents		3,924		14,338
Cash and cash equivalents at beginning of year		•		12,517
Cash and cash equivalents at end of year	\$	26,855	\$	
Cash and cash equivalents at end of year	<u> </u>	30,779	Þ	26,855
Supplemental disclosure of non-cash investing activities				
Assets acquired as lessee involvement in construction	\$	8,710	\$	

#### Notes to Consolidated Financial Statements

December 31, 2012

#### 1. Organization and Significant Accounting Policies

#### **Organization**

Montefiore Medical Center (the Medical Center) and its controlled organizations comprise an integrated delivery system. The majority of the facilities are located in the Bronx, New York. The Medical Center is incorporated under New York State Not-for-Profit Corporation law and provides health care and related services, primarily to residents of the Metropolitan New York area. The Medical Center is a not-for-profit membership organization whose sole member is the Montefiore Health System, Inc.

The Medical Center's significant accounting policies follow:

Basis of Financial Statement Presentation: The accompanying consolidated financial statements include the accounts of Montefiore Medical Center and its controlled tax exempt and taxable organizations: MMC Corporation (MCORP), CMO The Care Management Company, LLC (CMO), Montefiore IPA, Inc. (MIPA), Bronx Accountable Healthcare Network IPA, Inc. (ACO-IPA) beginning January 1, 2012, University Behavioral Associates, Inc. (UBA), Montefiore Behavioral Care IPA No. 1, Inc. (MBCIPA), Gunhill MRI P.C. (Gunhill), MMC Residential Corp. 1, Inc. (Housing 1), Montefiore Hospital Housing Section II, Inc. (Housing II), Mosholu Preservation Corporation (MPC), Emerging Health Information Technology, LLC (EHIT), MMC GI Holdings East, Inc. (GI East), MMC GI Holdings West, Inc. (GI West), Montefiore North Ambulatory Care Center, Inc. (NAMB) and Montefiore Proton Acquisition, LLC (MPRO), an organization in the development stage. For purposes of financial statement presentation, the entities described above are collectively termed the Medical Center except as explicitly specified. All intercompany transactions have been eliminated in consolidation. Captive insurance companies in which the Medical Center has an equity interest of 20% but less than 50% are accounted for under the equity method of accounting.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by the donors to be maintained by the Medical Center in perpetuity. The Medical Center records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions.

## Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying consolidated financial statements. Other revenue for the years ended December 31, 2012 and 2011, includes approximately \$4.4 million and \$4.8 million, respectively, of net assets released from restrictions used for operations.

Cash and Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the time of purchase which are not deemed to be assets limited as to use or part of the marketable securities portfolio. The Medical Center maintains cash on deposit with major banks and invests in highly rated commercial paper on an overnight basis or securities issued by either the United States Government or its agencies with a maturity of three months or less at the time of purchase. The Medical Center limits the amount of credit exposure to any one financial institution. At December 31, 2012 and 2011, the Medical Center invested excess cash in deposits with major banks and in money market funds with high credit quality financial institutions.

Revenue and Receivables for Patient Care: Patient accounts receivable for which the Medical Center receives payment under various formulae or negotiated rates, which cover the majority of patient services, are stated at the estimated net amount receivable from such payors, which is generally less than the established billing rates of the Medical Center. Fees for patient services not covered by payor reimbursement and insurance programs are recorded on a sliding scale dependent on the individual's ability to pay. For purposes of presentation in the accompanying consolidated statements of financial position, receivables for patient care are net of advances from third-party payors which are directly related to receivables for patient care. Such advances aggregated approximately \$30.9 million and \$39.3 million at December 31, 2012 and 2011, respectively.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions and other collection indicators. In prior years the allowance for doubtful accounts included allowances for charity care. Beginning in 2012, the allowance for doubtful accounts is presented net of charity care allowances, representing only doubtful accounts related to bad debt (i.e., only amounts expected to be uncollected due to the patients' inability or unwillingness to pay). As a result, the allowance previously presented for 2011 has been revised by approximately \$111 million to conform to current year presentation.

## Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

*Inventories:* Inventories, included in other current assets, are valued at the lower of cost (first-in, first-out method) or market.

Marketable and Other Securities: All marketable and other securities are classified as trading securities. Marketable securities (excluding alternative investments) are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, collective trust funds and equity securities. Marketable securities received as a gift are initially recorded at fair value at the date of the gift. The carrying amount of alternative investments (nontraditional, not readily marketable asset classes), some of which are structured such that the Medical Center holds limited partnership interests, are determined by the Medical Center's management for each investment based upon net asset values derived from the application of the equity method of accounting.

Individual investment holdings within the alternative investments include both non-marketable and market-traded securities. Valuations of the non-marketable securities are determined by the investment manager or general partner. These values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, the carrying amount reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Medical Center to securities lending, short sales of securities, and trading in futures and forwards contracts, options and other derivative products. The Medical Center's risk is limited to its carrying value, in addition to any unfunded commitment. At December 31, 2012, the Medical Center had approximately \$4.5 million of future commitments to invest in alternative investments. Certain investments are subject to notification periods or restrictions in order to divest. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Medical Center's annual consolidated financial statement reporting.

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary or secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

# Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

Investment Gains, Losses, and Income: Net realized and unrealized gains and losses on marketable and other securities and equity in earnings or losses of alternative investments are recorded in the consolidated statements of operations unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income limited by donor-imposed restrictions is recorded as an increase in temporarily restricted net assets.

Realized gains and losses on sales of marketable and other securities are based on the average cost method.

Assets Limited as to Use: Assets so classified represent assets whose use is restricted for specific purposes under terms of agreements, donor restrictions, or internal designations.

Property, Buildings, and Equipment: Property, buildings, and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date received. Capital lease assets are recorded at the present value of the minimum lease payments at the inception of the leases. Annual provisions for depreciation or amortization are made based upon the straight-line method over the estimated useful lives of the assets. Capital lease assets are amortized over the lesser of the estimated useful life or lease term. Such amortization is included in depreciation and amortization expense. The carrying amounts of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations in the year of disposal. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of the assets.

Deferred Financing Costs: Deferred financing costs represent costs incurred to obtain financing for various construction and renovation projects. Amortization of these costs is determined by the effective interest method extending over the terms of the related indebtedness.

Employee Deferred Compensation Plan: Pursuant to various deferred compensation plans in which certain Medical Center employees or former employees participate, the Medical Center deposited amounts with trustees on behalf of the participating employees. The Medical Center is not responsible for investment gains or losses incurred. The assets, which are carried at fair value with a corresponding liability, are restricted for payments under the plans and may only revert to the Medical Center under certain specified circumstances.

# Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

*Deferred Revenue:* Deferred revenue included with other non-current liabilities represents amounts the Medical Center has received for which all obligations have not yet been fulfilled. Accordingly, such amounts are included within deferred revenue until earned.

*Vacation Benefits:* These benefits are accrued as earned, except for individuals employed under certain research grants and contracts.

Premium Revenue and Health Care Service Cost Recognition: Under certain managed care contracts, the Medical Center receives from the insurer a monthly premium per enrollee during the term of enrollment. The premium revenue, which is based on individual contracts, is recognized in the period earned. Under such arrangements, the Medical Center manages and, directly and through arrangements with other health care providers, delivers health care services to enrollees in accordance with the terms of the subscriber agreements. The Medical Center reimburses these providers on either a capitated or negotiated fee-for-service basis. The cost of health care services is accrued based on processed and unprocessed claims and estimates for medical services, which have been incurred but not reported. Although it is not possible to measure with certainty the degree of variability inherent in such an estimate, such estimates are continually monitored and reviewed by management and independent actuaries, and any adjustments deemed necessary are reflected in current operations. Health care service costs included in supplies and other expenses were reduced by approximately \$1.2 million and \$2.8 million for the years ended December 31, 2012 and 2011, respectively, reflecting the difference between claims paid and the liability originally estimated. Premium revenue included within the caption net patient service revenue in the accompanying consolidated statements of operations aggregated approximately \$560.8 million and \$550.6 million for the years ended December 31, 2012 and 2011, respectively.

*Performance Indicator:* The consolidated statements of operations include income from operations as the performance indicator. Items excluded from income from operations are change in defined benefit pension and other postretirement plan liabilities to be recognized in future periods and net assets released from restrictions used for purchases of property, buildings, and equipment.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses and included in income from operations. Peripheral transactions or transactions of an infrequent nature are excluded from income from operations before certain items.

#### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

Research and Contract Revenue Recognition: The Medical Center is the recipient of various research awards from various governmental and commercial sources and has various contracts with governmental agencies. Revenue is recognized only to the extent of expenditures under the specific contracts or awards. The accompanying consolidated financial statements do not include amounts related to grants (or portions thereof) that have been awarded to the Medical Center for which expenditures have not been incurred. Such grant awards approximated \$30.0 million and \$27.3 million at December 31, 2012 and 2011, respectively.

Taxes: The Medical Center, a section 501(c)(3) organization, is exempt from Federal, New York State and local income taxes under Section 501(a) of the Internal Revenue Code, as are all of the organizations consolidated in these financial statements, except for CMO, MIPA, ACO-IPA, UBA, MBCIPA, EHIT, MPRO, GI East, and GI West which are taxable entities. CMO and EHIT are considered to be disregarded entities for tax purposes. Disregarded entity status provides that the Medical Center is subject to unrelated business income taxation on CMO and EHIT income derived from activities not specific to the Medical Center.

In March 2010, the Internal Revenue Service (IRS) announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (FICA) taxes. As a result, organizations that had filed timely FICA refund claims covering periods up through that date became eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. During the year ended December 31, 2010, the Medical Center recorded estimated net revenue of approximately \$21.5 million presented as medical resident tax recovery. During the year ended December 31, 2012, the Medical Center was notified by the IRS that a refund of approximately \$31.8 million was approved. During 2012, the Medical Center received approximately \$29.1 million of the refund from the IRS. Accordingly, an additional amount of approximately \$10.3 million was recorded as medical resident tax recovery in the accompanying consolidated statement of operations for the year ended December 31, 2012. At December 31, 2012 and 2011, approximately \$2.9 million and \$21.5 million, respectively, were recorded in other receivables in the accompanying consolidated statements of financial position.

# Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

Charity Care and Other Community Benefit Programs: The Medical Center is guided by its mission and charitable purpose to provide charity care and other community benefit programs. These activities include access to medically necessary treatment for individuals unable to pay for services, care provided under means-tested government insurance programs that reimburse the Medical Center at less than the cost of the services provided, education for future health providers, research to advance knowledge and other programs designed to meet local community needs.

The Medical Center is committed to serving all patients in need of health care services. Consistent with its mission and values, and taking into account an individual's ability to pay for medically necessary health care services, the Medical Center provides charity care, including free or discounted care, to all patients not covered by insurance. A key aspect of the policy includes assisting patients in obtaining insurance they are eligible to receive. Care provided under the charity care policy is not reported as revenue in the accompanying consolidated statements of operations. The cost of charity care is estimated based on charges associated with the care provided, applied to the ratio of total patient care expenses to total charges for all services rendered.

Care provided to patients identified as having the means to pay, but for which payment is not received, is classified as bad debt expense. The Medical Center uses information from patients and other sources, for those who are unable to provide financial information, to determine eligibility for charity care to classify activity between charity care and bad debt expense. Bad debt expense is included as a deduction from patient service revenue in the accompanying statements of operations. For purposes of the community benefit costs disclosed in the following table, the cost of bad debt expense is estimated based on the charges, applied to the ratio of total patient care expenses to total charges for all services rendered.

Medicaid and other means-tested programs comprise approximately one-third of the Medical Center's patient service revenue. The costs are estimated based on charges for services provided under the means-tested programs, applied to the ratio of total patient care expenses to total charges for all services rendered. The unpaid cost presented in the following table is based on estimated total costs less reimbursement received for the services provided.

## Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

The Medical Center operates one of the largest medical residency and health professions training programs in the United States. The costs of the training programs are included in operating expenses in the accompanying consolidated statements of operations. The costs presented below are net of graduate medical education funding from the Medicare and Medicaid programs.

Research and other community benefit program costs include expenses incurred to advance medical care and clinical knowledge. In addition, the Medical Center fosters community participation through advisory boards and linkages with community-based groups. It responds to identified community health related needs by offering specific services including, among others, wellness programs, community education programs, health screenings, community support services and subsidized health services. The research and other community benefit program costs presented below are included in operating expenses in the accompanying consolidated statements of operations.

A summary of the costs associated with the provision of charity care and other community benefit programs is as follows:

	Year Ended December 31				
	2012 20				
	(In Thousands)				
Charity care, at cost and net of subsidies	\$	50,840	\$	43,645	
Bad debt expense, at cost		3,982		6,037	
Unpaid cost of means-tested government-sponsored					
insurance programs		161,325		138,316	
Health professions training, at cost		89,451		77,558	
Research and other community benefit programs		90,816		90,093	
	\$	396,414	\$	355,649	

Charity care is net of subsidies from the New York Health Care Reporting Act (HCRA) pools of approximately \$4.2 million and \$6.0 million for the years ended December 31, 2012 and 2011, respectively. The net subsidies represented approximately 11.3% and 16.6% of charity care provided for the years ended December 31, 2012 and 2011, respectively.

# Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

*Program Services:* The Medical Center provides health care and related services primarily within its geographic location. Expenses related to providing these services for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
	(In The	ousands)
Health care and related services	\$ 2,767,536	\$ 2,679,974
Program support and general services	216,715	198,828
	\$ 2,984,251	\$ 2,878,802

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients and estimated insurance recoveries receivable, and liabilities, such as estimated payables to third-party payors, estimated insurance claims liabilities and the disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. The allowance for doubtful accounts and the estimated due to third-party payors, among other accounts, require significant use of estimates. Actual results could differ from those estimates. Management believes that amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the Medical Center's consolidated financial position.

Adoption of New Accounting Pronouncements: In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-07, Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (ASU No. 2011-07). In accordance with ASU No. 2011-07, the Medical Center is required to present its provision for doubtful accounts related to patient service revenue as a deduction from revenue, similar to contractual discounts. Accordingly, the Medical Center's revenue is reported net of both contractual discounts as well as its provision for doubtful accounts related to patient service revenue. Additionally, ASU No. 2011-07 requires the Medical Center to make certain additional disclosures designed to help financial statement users understand how contractual discounts and bad debts affect recorded revenue in annual financial statements.

#### Notes to Consolidated Financial Statements (continued)

#### 1. Organization and Significant Accounting Policies (continued)

ASU No. 2011-07 is required to be applied retrospectively and is effective for fiscal years beginning after December 15, 2011. The Medical Center adopted the provisions of ASU No. 2011-07 as of and for the year ended December 31, 2012 and retrospectively applied the presentation requirements to all periods presented. Bad debt expense, reflected as a reduction to net patient service revenue in the accompanying consolidated statements of operations, amounted to approximately \$15.9 million and \$18.5 million for the years ended December 31, 2012 and 2011, respectively.

Reclassifications: For purposes of comparison, certain reclassifications have been made to the accompanying 2011 consolidated financial statements to conform to the 2012 presentation. These reclassifications have no effect on net assets previously reported.

Subsequent Events: On December 5, 2012, the Medical Center entered into an Asset Purchase Agreement with New York Westchester Square Medical Center (WSMC) to purchase all of its real property and certain furniture and equipment. On January 24, 2013, the Bankruptcy Court of the Southern District of New York approved the purchase, which is anticipated to close on or before March 31, 2013. The Medical Center plans to operate a full-service emergency department, ambulatory surgery center and outpatient primary and specialty care services at the WSMC location. The Medical Center plans to use the proceeds from a New York State Department of Health HEAL Grant to purchase the assets and reconfigure services.

Subsequent events have been evaluated through March 18, 2013, which is the date the consolidated financial statements were issued. No other subsequent events have occurred that require disclosure in or adjustments to the consolidated financial statements.

#### 2. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts due from third-party payors, patients, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

# Notes to Consolidated Financial Statements (continued)

#### 2. Net Patient Service Revenue (continued)

Non-Medicare Reimbursement: In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula.

Outpatient services also are paid based on a statewide prospective system that became effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Medical Center is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

*Medicare Reimbursement:* Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

Medicare and Medicaid regulations require annual retroactive settlements for cost-based reimbursements through cost reports filed by the Medical Center. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2012 and 2011 could differ from actual settlements based on the results of cost report audits.

Laws and regulations governing health care programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in repayment of amounts improperly reimbursed, fines, penalties and exclusion from such programs. The Medical Center is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance, in all material respects, with all applicable laws and regulations.

# Notes to Consolidated Financial Statements (continued)

#### 2. Net Patient Service Revenue (continued)

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the Federal and State governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse effect on the Medical Center.

Bad Debt Expense: The collection of patient service revenue due from patients, including copayments and deductibles, from those who are ineligible for charity care, is subject to uncertainty. The Medical Center records bad debt expense in the period services are rendered based on past experience, to account for amounts that patients may ultimately be unable or unwilling to pay. For self-pay patients, which includes both patients without insurance and patients with copayments and deductibles after third-party coverage, the Medical Center records an estimate for bad debt expense in the current period based on past experience. Amounts ultimately written off as uncollectible and recoveries of such amounts are deducted from, or added to the allowance for doubtful accounts. Net patient service revenue, net of contractual allowances and discounts, for the year ended December 31, 2012 by major payor source, is as follows:

	Thi	ird-Party				
	]	Payors	S	Self-Pay		Total
			(In	Thousands	)	
Patient service revenue (net of contractual allowances and discounts)	\$ 7	2,881,715	\$	37 966	\$	2,919,681
Bad debt expense	Ψ 2	(3,308)	Ψ	(12,622)	Ψ	(15,930)
Net patient service revenue	\$ 2	2,878,407	\$	25,344	\$	2,903,751

# Notes to Consolidated Financial Statements (continued)

#### 3. Marketable and Other Securities

The composition of marketable and other securities at fair value follows:

	December 31				
	2012	2011			
	(In Thousands)				
Marketable and other securities	\$ 914,410	\$ 775,680			
Assets limited as to use – marketable and other securities	244,722	240,038			
Marketable securities held as collateral	5,880	6,040			
	\$ 1,165,012	\$ 1,021,758			
Non aguity mutual funds	\$ 203,663	\$ 162.264			
Non-equity mutual funds		- , -			
Equity mutual funds	89,743	85,617			
U.S. Government agency mortgage-backed securities	44,120	64,857			
U.S. Treasury securities	201,553	191,516			
U.S. Government agency-backed securities	41,488	82,333			
Equity securities	39,726	1,852			
Limited partnerships and other alternative investments	109,078	109,038			
Collective trust funds	47,087	33,821			
Corporate debt	378,938	290,213			
Interest and other receivables	9,616	247			
	\$ 1,165,012	\$ 1,021,758			

Current assets limited as to use-marketable securities include amounts set aside to satisfy MIPA contractual requirements, the current portion of assets designated for employee deferred compensation and the current portion of assets designated for malpractice insurance programs.

# Notes to Consolidated Financial Statements (continued)

#### 3. Marketable and Other Securities (continued)

Investment returns for the years ended December 31, 2012 and 2011 are comprised as follows:

	Ye	Year Ended Decembe 2012 2011			
	(In Thousands)				
Interest and dividend income	\$	18,161	\$	16,239	
Net realized gains		5,615		1,622	
Change in net unrealized gains (losses)		29,639		(13,180)	
	\$	53,415	\$	4,681	

At December 31, 2012 and 2011, marketable securities aggregating approximately \$5.9 million and \$6.0 million (at fair value), respectively, were pledged as collateral under various debt and other agreements and included in marketable securities held as collateral in the consolidated statements of financial position.

#### 4. Property, Buildings, and Equipment

A summary of property, buildings, and equipment follows:

	December 31			
		2012	2	2011
	(In Thousands)			
Land and land improvements	\$	24,742	\$	24,530
Buildings, fixed equipment, and improvements		1,241,445	1	,194,684
Movable equipment		820,389		729,731
		2,086,576	1	,948,945
Less accumulated depreciation and amortization		(1,351,925)	(1	,243,509)
		734,651		705,436
Construction-in-progress		41,231		33,105
	\$	775,882	\$	738,541

Property, buildings, and equipment includes capital lease assets of approximately \$28.8 million at December 31, 2012 and 2011, with accumulated amortization of approximately \$28.2 million and \$27.0 million, respectively.

# Notes to Consolidated Financial Statements (continued)

#### 4. Property, Buildings and Equipment (continued)

In addition, construction-in-progress includes approximately \$8.7 million of construction costs recorded in connection with lessee involvement during asset construction. At December 31, 2012, a corresponding construction liability has been recorded and is included as a component of other non-current liabilities in the accompanying consolidated statement of financial position.

Substantially all property, buildings, and equipment has been collateralized under various debt agreements.

#### **5. Operating Leases**

Total rental expense included in supplies and other expenses aggregated approximately \$39.4 million and \$36.4 million for the years ended December 31, 2012 and 2011, respectively.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2012 consisted of the following (in thousands):

2013	\$ 26,314
2014	25,151
2015	23,748
2016	21,461
2017	21,946
2018 and thereafter	132,368
Total minimum lease payments	\$ 250,988

# Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt

A summary of long-term debt follows:

	December 31					
	2012 20			2011		
		(In Thousands)				
FHA Section 242 insured mortgage loan (a)	\$	112,574	\$	118,244		
FHA Section 241 insured mortgage loan (b)		91,368		98,142		
FHA Section 241 insured mortgage loan (c)		75,655		79,362		
FHA Section 241 insured mortgage loan (d)		12,415		13,022		
FHA Section 241 insured mortgage loan (e)		150,554		154,875		
HDC residential revenue bonds payable (f)		6,800		7,000		
Bank loans payable (g)		10,702		7,923		
Housing II mortgages payable (h)		19,000		19,122		
Housing I mortgage payable (i)		1,444		1,503		
MCORP bonds payable (j)		20,160		20,590		
NYC IDA bonds payable (i)		14,070		14,360		
Tax exempt leasing programs (k)		53,286		40,903		
Capital leases		701		2,825		
Other		2,109		3,181		
		570,838		581,052		
Add long-term mortgage premium (e)		7,929		8,914		
Less current portion		(41,742)		(39,356)		
	\$	537,025	\$	550,610		

<sup>&</sup>lt;sup>(a)</sup>The Medical Center has a mortgage agreement with the Dormitory Authority of the State of New York (the Dormitory Authority) insured under the provisions of the Federal Housing Administration (FHA) 242 Program. This insured mortgage loan is secured by a first mortgage on substantially all of the Medical Center's real property and unrestricted assets. Payments of principal and interest are due monthly through October 1, 2026. The interest is payable at 4.65% through January 31, 2015 and thereafter at 4.57%.

With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to February 1, 2015. Subsequent to February 1, 2015, prepayment may be made without penalty.

# Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt (continued)**

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2012, there were no future funding requirements and the balance of approximately \$22.1 million of the mortgage reserve fund met the minimum mortgage reserve fund requirement related to the FHA 242 Program insured mortgage loan.

(b) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program to finance a construction and renovation project. The interest rate on the mortgage is 4.55% per annum and principal and interest payments are due monthly through April 2023, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to February 1, 2018. Subsequent to February 1, 2018, the loan may be prepaid without penalty.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2012, the Medical Center met the funding requirements and minimum mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

		D	ecember 31	
	Funding	]	Minimum	
	Requiremer	ıt	Balance	
	(In Th	(In Thouse		
2013	\$ 4,782	\$	22,199	
2014	<del>-</del>		22,199	
2015	<del>-</del>		22,199	
2016	<del>-</del>		20,904	
2017	_		17,667	

# Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt (continued)**

(c) The Medical Center has a mortgage agreement, insured under the provisions of the FHA 241 Program, to finance certain construction and renovation projects, including the Children's Hospital at Montefiore, which was completed in 2001, and to refinance certain debt. Prior to May 2011, the mortgage agreement was with the Dormitory Authority and the rate was 5.66% per annum. In May 2011, the Medical Center issued Montefiore Medical Center GNMA Collateralized Taxable Revenue Bonds, Series 2011 (the 2011 Bonds) in order to refinance the mortgage loan and reduce the mortgage rate to 4.22%. The 2011 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA). Mortgage principal and interest payments are due monthly to the trustee, which are then used by the trustee to semi-annually pay down the outstanding balance of the mortgage loan. Such payments will be made through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to April 30, 2021, after which the mortgage may be prepaid without penalty.

The Medical Center is required to maintain a mortgage reserve fund at specified minimum balances for the FHA insured mortgage loan. At December 31, 2012, there were no future funding requirements and the balance of approximately \$14.0 million met the minimum required reserve fund balance.

(d) The Medical Center has a mortgage agreement, insured under the provisions of the FHA 241 Program, to finance a construction project, which was completed in 2003. Prior to May 2011, the mortgage agreement was with the Dormitory Authority, and the rate was 6.23% per annum. In May 2011, the Medical Center issued the 2011 Bonds in order to refinance the mortgage loan and reduce the mortgage rate to 4.22%. The 2011 Bonds are secured by fully modified pass-through mortgage-backed securities guaranteed by the GNMA. Mortgage principal and interest payments are due monthly through May 1, 2027, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the mortgage loan may not be prepaid prior to April 30, 2021, after which the mortgage may be prepaid without penalty.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain a mortgage reserve fund at specified minimum balances for the FHA insured mortgage loan. At December 31, 2012, there were no future funding requirements and the balance of approximately \$2.3 million met the minimum required reserve fund balance.

# Notes to Consolidated Financial Statements (continued)

#### **6.** Long-Term Debt (continued)

(e) The Medical Center has a mortgage agreement with the Dormitory Authority, insured under the provisions of the FHA 241 Program, to finance a construction and renovation project that was completed in 2007. The interest rate is 5.37% per annum. Principal and interest payments are due monthly through April 1, 2032, at which time any remaining principal and interest is due. With the exception of certain limited circumstances, the loan may not be prepaid prior to February 1, 2015. Subsequent to February 1, 2015, the loan may be prepaid without penalty.

In connection with the mortgage agreement, the Medical Center has a bank letter of credit, which expires on December 14, 2013. The approximate \$4.4 million letter of credit is secured by approximately \$4.9 million of marketable securities included in marketable securities held as collateral in the consolidated statements of financial position at December 31, 2012 and 2011. There were no drawdowns under the letter of credit during the years ended December 31, 2012 and 2011.

In connection with this financing, the Medical Center recorded approximately \$7.6 million of mortgage premium as a component of long-term debt related to the termination of a forward starting interest rate swap agreement. The balance outstanding was approximately \$4.9 million and \$5.3 million at December 31, 2012 and 2011, respectively. The mortgage premium is amortized to accrete the amount recorded over the life of the mortgage using the effective interest method.

The Medical Center is required to place specified amounts into mortgage reserve funds and maintain the mortgage reserve funds at specified minimum balances for the FHA insured mortgage loans. At December 31, 2012, the Medical Center met the funding requirements and minimum required mortgage reserve fund balances related to the FHA 241 Program insured mortgage loan. The funding requirements and the required minimum mortgage reserve fund balances for the next five years are:

			Dece	ember 31
	Fu	ınding	Mi	nimum
	Req	Requirement		alance
		(In Tho	eds)	
2013	\$	2,582	\$	15,510
2014		2,431		17,941
2015		2,379		20,320
2016		2,426		22,746
2017		2,320		25,066

# Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt (continued)**

(f) The proceeds of New York City Housing Development Corporation (HDC) revenue bonds were used by the Medical Center for a staff housing project. Interest is payable monthly at a variable rate (1.495% at December 31, 2012). Principal is payable annually through May 1, 2030, at increasing annual amounts ranging from approximately \$200,000 to \$600,000. The amounts due are secured by a mortgage and a revenue pledge on the underlying property financed and an irrevocable direct pay letter of credit issued by a bank in the amount of approximately \$6.9 million, which expires in June 2014. No unreimbursed draws were made under the direct pay letter of credit during the years ended December 31, 2012 and 2011. The revenue bonds can be prepaid without penalty at the option of the Medical Center.

(g) The Medical Center has a bank loan, of which approximately \$4.8 million and \$5.0 million was outstanding at December 31, 2012 and 2011, respectively. Interest is payable monthly at a variable rate (3.6% at December 31, 2012). Annual principal payments of approximately \$155,000 are due through the final maturity date in August 2015, at which time the remaining principal is due.

The Medical Center has another bank loan agreement, of which approximately \$2.7 million and \$2.9 million was outstanding at December 31, 2012 and 2011, respectively. Interest is payable monthly at a variable rate (2.8% at December 31, 2012). Annual principal payments of approximately \$267,000 are due through the final maturity date in August 2015, at which time the remaining principal is due.

During 2012, MCORP entered into a loan agreement with a bank to finance certain leasehold improvements. The balance outstanding at December 31, 2012 was approximately \$3.2 million. Interest is payable monthly at a variable rate (3.17% at December 31, 2012). Annual principal payments of approximately \$800,000 are due through the final maturity date in December 2016, at which time the remaining principal is due.

(h) Housing II has primary and subordinate mortgage agreements with HDC. At December 31, 2012 and 2011, the primary mortgage amount outstanding was approximately \$6.2 million and \$6.3 million, respectively. The interest rate is 6.5%, and principal and interest payments of \$44,300 are due monthly through January 1, 2035. After December 29, 2019, the primary mortgage may be prepaid without penalty if the subordinate mortgage is no longer outstanding. At December 31, 2012 and 2011, the subordinate mortgage amount outstanding was approximately \$12.8 million and bears no interest.

# Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt (continued)**

The subordinate mortgage is payable in full on April 30, 2035. After December 29, 2019, the subordinate mortgage may be prepaid without penalty. The effective interest rate of the combined obligation is 2.3%, assuming the obligation is prepaid in 2019. If the mortgages remain outstanding through 2035, the effective interest rate is 1.8%. Housing II has used 1.8% as the interest rate for the purpose of recognizing interest expense under the assumption that the mortgages will remain outstanding through 2035.

Substantially all of Housing II's property and equipment rents and profits are collateral for the mortgages. In addition, any requests for rental increases must be approved by HDC. During the years ended December 31, 2012 and 2011, Housing II maintained the reserve for replacement account in accordance with HDC requirements. Monthly deposits aggregating approximately \$5,000 are required to be made into this account.

- (i) Housing I has a mortgage loan agreement with a lender. At December 31, 2012 the principal balance outstanding was approximately \$1.4 million. The interest rate is 7.6%. Principal and interest payments are due monthly through July 2026. The mortgage loan may be prepaid upon 30 days notice subject to payment of a prepayment penalty of at least 1%. The mortgage loan is secured by a mortgage on the building and underlying property.
- (i) MCORP has acquired certain real estate financed with the proceeds of two financings: approximately \$15.6 million of New York City Industrial Development Agency (NYC IDA) revenue bonds and approximately \$21.9 million of MCORP taxable bonds. The MCORP bonds were also used to refinance a bridge loan related to another real estate acquisition. Interest on the NYC IDA bonds has an average coupon rate of 4.96%, and payments of interest and principal are payable monthly through October 1, 2035. The bonds may be prepaid without penalty. The bonds were sold at a premium of approximately \$308,000, which was recorded as a component of the related long-term debt balance and is being amortized using the effective interest method over the term of the bonds. Interest on the MCORP bonds is payable monthly at a variable rate (1.575% at December 31, 2012). Principal is payable monthly through October 1, 2035. The bonds are subject to prepayment without penalty. Both bond issues are secured by direct pay letters of credit from a bank in the amounts of approximately \$14.4 million and \$20.3 million at December 31, 2012, and approximately \$14.7 million and \$20.7 million at December 31, 2011. The letters of credit are secured by a mortgage on the properties financed. The letters of credit expire December 31, 2015.

## Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt (continued)**

No unreimbursed draws were made under the direct pay letters of credit during the years ended December 31, 2012 and 2011.

The aggregate amount of principal payments required under all long-term indebtedness, including capital leases and amortization of long-term mortgage premium, during the next five years, exclusive of sinking funds requirements, follows (in thousands):

2013	\$ 41,742
2014	40,261
2015	45,265
2016	35,955
2017	34,008

Substantially all of the Medical Center's property, buildings, and equipment and other assets serve as collateral under the various debt arrangements. In addition, the Medical Center must maintain certain financial ratios and, among other things, obtain approval to incur additional debt above specified amounts. The Medical Center was in compliance with such covenants at December 31, 2012 and 2011.

At December 31, 2012 and 2011, the Medical Center had a line of credit with a bank aggregating approximately \$8.5 million. There were no amounts drawn down under this line of credit.

Interest paid during the years ended December 31, 2012 and 2011 amounted to approximately \$26.8 million and \$27.9 million, respectively.

<sup>(</sup>k) The Medical Center borrowed approximately \$25.0 million and \$17.5 million during the years ended December 31, 2012 and 2011, respectively, under a tax-exempt leasing program (TELP) to finance equipment acquisitions. The interest rates associated with the Medical Center's various TELP borrowings range from 1.06% to 3.23%.

# Notes to Consolidated Financial Statements (continued)

#### 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

		December 31				
		2012		2011		
	(In Thousands)					
Collateralizing bank financing, teaching and research	\$	34,800	\$	34,800		
Construction and renovation projects		10,462		7,278		
Health care related services		20,475		21,123		
Research		7,797		7,705		
Health education		<b>766</b>		1,888		
	\$	74,300	\$	72,794		

The Medical Center follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) passed into law effective September 2010 as it relates to its permanently restricted endowments. Prior to the enactment of the law, the Medical Center followed the requirements of the Uniform Management of Institutional Funds Act. The Medical Center has interpreted NYPMIFA, which did not have a significant effect on the Medical Center's endowment policies that were in effect prior to the enactment. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment funds.

The Medical Center's endowments consist of donor-restricted funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Medical Center requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) if applicable, any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until the purpose or time restriction expires. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified term.

# Notes to Consolidated Financial Statements (continued)

#### 7. Temporarily and Permanently Restricted Net Assets (continued)

Net change in endowment funds

Endowment balance, end of year

The Medical Center's investment and spending policies for endowment assets seek to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified term.

For the years ended December 31, 2012 and 2011, the Medical Center had the following endowment-related activities:

Year Ended December 31, 2012

155

25,350

1,428

			ı caı	Ellucu De	CCIII	oci 31, 201.		
			Tei	mporarily	Pe	ermanently		
	Unrestricted		R	Restricted		Restricted		Total
				(In Tho				
Endowment balance, beginning of year Investment return:	\$	_	\$	1,428	\$	25,350	\$	26,778
Investment income		250		195		_		445
Total investment return	-	250		195		_		445
Amounts appropriated for expenditure		(250)		(68)		_		(318)
Net change in endowment funds		_		127		_		127
Endowment balance, end of year	\$	_	\$	1,555	\$	25,350	\$	26,905
	Year Ended December 31, 2011							
			Tei	mporarily	Pe	rmanently		
	Unre	stricted	R	estricted	ed Restricted			Total
				(In Tho	usan	ds)		
Endowment balance, beginning of year	\$	_	\$	1,273	\$	25,350	\$	26,623
Investment return:								
Investment income		250		195		_		445
Total investment return		250		195		_		445
Amounts appropriated for expenditure		(250)		(40)		_		(290)

\$

26,778

# Notes to Consolidated Financial Statements (continued)

#### 7. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets amounted to approximately \$25.4 million at December 31, 2012 and 2011. At December 31, 2012 and 2011, the fair value of marketable securities (including reinvested earnings over the life of endowments) exceeded the amount of permanently restricted net assets at such dates.

#### 8. Benefit Plans

The Medical Center is a contributing employer to two union multiemployer pension plans. In addition, the Medical Center also maintains two tax deferred annuity plans under Section 403(b) of the Internal Revenue Code as well as two noncontributory defined benefit pension plans.

Contributions to union multiemployer pension plans are made in accordance with contractual agreements under which contributions are based on a percentage of salaries or a negotiated amount. Contributions to the non-contributory tax deferred annuity plan are based on percentages of salary. Contributions to the noncontributory defined benefit plans are based on actuarial valuations. Benefits under the noncontributory defined benefit plans are based on years of service and salary levels. The Medical Center's policy is to contribute amounts sufficient to meet funding requirements in accordance with the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

Total expense, included in employee benefits expense in the consolidated statements of operations for the various pension plans aggregated approximately \$98.7 million and \$87.7 million for the years ended December 31, 2012 and 2011, respectively. Cash payments relative to the various pension plans aggregated approximately \$97.3 million and \$92.3 million for the years ended December 31, 2012 and 2011, respectively.

The Medical Center also sponsors two unfunded defined benefit postretirement health and welfare plans that cover certain full-time and part-time employees and eligible dependents.

# Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

#### **Multiemployer Plans**

The Medical Center contributes to two multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees: New York State Nurses Association Pension Plan (NYSNA) and the 1199SEIU Healthcare Employees Pension Fund (1199SEIU). The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

- a. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If an entity of the multiemployer defined benefit pension plan chooses to stop participating in some of its multiemployer plans, the entity may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Medical Center's participation in these plans for the years ended December 31, 2012 and 2011, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan numbers. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2012 and 2011 is for the plan's year end at December 31, 2011 and 2010, respectively. The zone status is based on information that the Medical Center received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

# Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

Pension	EIN/ Pension Plan	Pension Pr Act Zone		FIP/RP Status Pending/	Contributio Medical			Surcharge	Expiration Date of Collective- Bargaining
Fund	Number	2012	2011	Implemented	2012		2011	Imposed	Agreement
					(In The	usa	nds)		
NYSNA(a)	13-6604799/ 001 13-3604862/	Green	Green	N/A	\$ 16,723	\$	15,632	No	12/31/2014
1199SEIU	001	Green	Green	N/A	\$ 35,420	\$	31,615	No	4/30/2015

<sup>(</sup>a) Retroactive to 2009, the plan changed its asset valuation method to amortize 2008 losses over ten years as allowed under the Pension Relief Act of 2010. In addition, the 2012 annual contribution rate per participant increased from \$7,900 in 2011 to \$8.216 in 2012.

The Medical Center was listed in the plans' Forms 5500 as providing more than 5% of the total contributions for the following plan years:

		Exceeded More than 5% of Total Contributions (as of December 31 of
	Pension Fund	the Plan's Year End)
NYSNA 1199SEIU		2011 and 2010 2011 and 2010

At the date the Medical Center's consolidated financial statements were issued, Forms 5500 were not available for the plans' year ended in 2012.

#### **Defined Benefit Plans**

The Medical Center recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its consolidated statements of financial position. Net unrecognized actuarial losses and net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Medical Center's accounting policy for amortizing such amounts.

# Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

Included in unrestricted net assets at December 31, 2012 and 2011 are the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension					Postretirement				
		2012		2011		2012	2011			
	(In Thouse					nds)				
Unrecognized actuarial loss Unrecognized prior service	\$	11,891	\$	10,573	\$	36,985	\$	17,542		
cost (credit)		4,926		44		_		(852)		
	\$	16,817	\$	10,617	\$	36,985	\$	16,690		

The unrecognized net prior service cost (credit) and actuarial loss included in unrestricted net assets expected to be recognized as net periodic benefit cost during the year ending December 31, 2013 are approximately \$111,000 and \$6.5 million, respectively.

## Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

The following tables provide a reconciliation of the changes in the defined benefit pension plans' benefit obligations and fair value of plan assets (where applicable) and postretirement benefit plan for the years ended December 31, 2012 and 2011 and the funded status of the defined benefit plans as of December 31, 2012 and 2011:

	Pension				Postretirement			
	2012			2011		2012		2011
				(In The	ousa	nds)		
Changes in benefit obligation								
Benefit obligation at January 1	\$	28,599	\$	29,274	\$	93,757	\$	86,793
Service cost		2,157		2,134		6,530		5,979
Interest cost		1,296		1,206		4,665		4,456
Actuarial loss		3,243		2,505		20,500		408
Benefit payments, net		(4,457)		(6,520)		(4,649)		(3,879)
Plan amendment		5,905				_		
Benefit obligation at								
December 31	\$	36,743	\$	28,599	\$	120,803	\$	93,757
Change in plan assets Fair value of plan assets at January 1 Actual return on plan assets Employer contributions Benefit payments	\$	19,825 1,604 4,808 (4,457)	\$	19,999 (498) 6,844 (6,520)	\$	- 4,649 (4,649)	\$	- 3,879 (3,879)
Fair value of plan assets at December 31	\$	21,780	\$	19,825	\$	_	\$	
Funded status Amounts recognized in the consolidated statements of	ф	(14.0/2)	¢	(0.774)	ф	(120.002)	ф	(02.757)
financial position	\$	(14,963)	\$	(8,774)	\$	(120,803)	\$	(93,757)

The accumulated benefit obligation for the Medical Center's defined benefit plans as of December 31, 2012 and 2011 is approximately \$26.1 million and \$23.6 million, respectively.

# Notes to Consolidated Financial Statements (continued)

## 8. Benefit Plans (continued)

The following table provides the components of the net periodic benefit cost for the defined benefit pension plans and postretirement benefit plan for the years ended December 31, 2012 and 2011:

Pens		Postreti	rement				
2012		2012	2011				
	(In Tho	usands)					
\$ 2,157	\$ 2,134	\$ 6,530	\$ 5,979				
1,296	1,206	4,665	4,456				
(1,375)	(1,334)	´ –	, <u> </u>				
1 023	44	(852)	(1,491)				
			1,291				
	_	1,030	1,271				
		\$ 11.401	\$ 10,235				
Ψ •••••	Ψ 2,113	Ψ 11,101	Ψ 10,233				
Pension Postretirement							
			2011				
		4.50%	5.10%				
3.00% – 4.00%	3.00% - 4.00%	_	_				
Done	sion	Postroti	iromont				
			2011				
2012	AVAL	2012	AVAL				
5.10%	5.25% - 5.35%	5.10%	5.25%				
	c 500/						
		_	_				
	\$ 2,157 1,296 (1,375) 1,023 628 1,068 \$ 4,797  Pens 2012  4.50% 3.00% - 4.00%  Pens 2012	\$ 2,157 \$ 2,134 1,296 1,206 (1,375) (1,334) 1,023 44 628 321 1,068 72 \$ 4,797 \$ 2,443 Pension 2012 2011 4.50% 5.10% 3.00% - 4.00% 3.00% - 4.00% Pension 2012 2011	\$2,157				

## Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

The overall expected long-term rate of return on plan assets is based on the historical returns of each asset class weighted by the target asset allocation. The target asset allocation has been selected consistent with the plan's desired risk and return characteristics. The Medical Center's independent consulting actuaries review the expected long-term rate periodically and based on the building block approach, updated the rate for changes in the marketplace.

The Medical Center's defined benefit pension plan weighted-average asset allocations, by asset category, are as follows:

	Decem	ber 31
	2012	2011
Equity securities	10%	27%
Debt securities	8	9
Alternative investments	24	21
Equity mutual/common trust funds	55	41
Cash and cash equivalents	3	2
Total	100%	100%

Defined benefit pension plan assets are carried at fair value and generally consist of fixed income securities issued or guaranteed by government entities, money market funds, mutual funds, fixed income securities issued by corporations, equity securities, and alternative investments. Alternative investments are stated at fair value based upon, as a practical expedient, net asset values derived from the application of the equity method of accounting. Refer to Note 10 for additional fair value measurement information related to the defined benefit plan asset categories noted in the table above.

The target allocations for the defined benefit pension plan's assets are as follows:

U.S. stocks	21%
Non-U.S. stocks	14
Global stocks	6
Bonds	20
Hedge funds	29
Private equity funds	10

## Notes to Consolidated Financial Statements (continued)

## 8. Benefit Plans (continued)

Assumed health care cost trend rates at December 31 are as follows:

	2012	2011
Health care cost trend rate	8.95%	8.55%
Rate to which the cost trend rate is assumed to decline		
(the ultimate trend rate)	4.50%	4.50%
Years that the rate reaches the ultimate trend rate	2020-2021	2019-2020

The measurement dates used to determine defined benefit pension and postretirement plan costs were December 31, 2012 and 2011.

During the year ending December 31, 2013, the Medical Center expects to contribute approximately \$3.4 million and \$5.5 million to the defined benefit pension and postretirement plans, respectively.

Expected benefit payments by year as of December 31, 2012 follow:

	I	Pension		Postretirement		
		(In Thousands)				
2013	\$	3,447	\$	5,500		
2014		3,224		5,900		
2015		2,701		6,200		
2016		2,633		6,500		
2017		7,591		6,900		
2018-2022		25,795		42,800		

#### Notes to Consolidated Financial Statements (continued)

#### 8. Benefit Plans (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the defined benefit postretirement plans. A 1% change in assumed health care cost trend rates would have the following effects relating to the postretirement plans:

	2		20	11		
	1%	1%	1	1%		1%
	Increase	Decrease	Inc	rease	D	ecrease
		(In The	ousand	(s)		
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost Effect on the health care	\$ 1,700	<b>\$</b> (1,400)	\$	700	\$	(800)
component of the accumulated postretirement benefit obligation	15,300	(12,600)		11,100		(9,200)

#### 9. Contingencies and Other

Claims have been asserted against the Medical Center by various claimants arising out of the normal course of its operations. The claims are in various stages of processing and some may ultimately be brought to trial. Also, there are known incidents occurring through December 31, 2012 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. Medical Center management and counsel are unable to conclude about the ultimate outcome of the actions. However, it is the opinion of Medical Center management, based on prior experience that adequate insurance is maintained and adequate provisions for professional liabilities, where applicable, have been established to cover all significant losses and that the eventual liability, if any, will not have a material adverse effect on the Medical Center's consolidated financial position.

#### Notes to Consolidated Financial Statements (continued)

#### 9. Contingencies and Other (continued)

The Medical Center participates in a pooled insurance program for professional and general liabilities with certain other health care facilities (principally hospitals) affiliated with the UJA Federation of Jewish Philanthropies of New York (the FOJP Program). Participation in this occurrence basis insurance program is through captive and commercial insurance companies. Participation in the FOJP Program began in April 1977. The Medical Center changed its malpractice insurance program for the period from January 1, 1998 through December 31, 1998, becoming self-insured for a portion of the coverage for this period. At December 31, 2012 and 2011, the Medical Center had liabilities recorded of approximately \$2.0 million and \$1.9 million, respectively, related to this self-insured period. Such amounts are included in the total program liabilities noted below, and represent the estimated remaining exposure under the self-insured program. The Medical Center has fully funded the liability related to the self-insured period at December 31, 2012 and 2011; these amounts are included in current assets limited as to use in the accompanying consolidated statements of financial position. For the period beginning January 1, 1999, the Medical Center's malpractice insurance program reverted to a program similar to the arrangement that existed prior to January 1, 1998. Beginning in 2002, the insurance program offered a deferred premium arrangement in which 40% of the annual premium is paid in the current year and the balance is payable over three years.

As of December 31, 2012, the Medical Center retained ownership interests in three captive insurance companies affiliated with the FOJP Program ranging from 17% to 25%. The Medical Center has recognized its allocated share of the program's accumulated surplus using the equity method of accounting. Such amounts (approximately \$67.7 million and \$61.2 million at December 31, 2012 and 2011, respectively) are included in deferred financing costs and other non-current assets in the accompanying consolidated statements of financial position. Total liabilities associated with this program were approximately \$195.9 million and \$184.8 million at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, approximately \$66.9 million and \$64.2 million, respectively, were included in other payables and accrued expenses and approximately \$129.0 million and \$120.6 million, respectively, were included in other non-current defined benefit and postretirement health plan and insurance liabilities in the consolidated statements of financial position.

The liabilities principally relate to the deferred premium arrangement, the participating hospitals' guarantee of certain investment returns of the captive companies and retroactive premium adjustments.

## Notes to Consolidated Financial Statements (continued)

#### 9. Contingencies and Other (continued)

The Medical Center has recognized estimated insurance claims receivable and estimated insurance claims liabilities of approximately \$487.9 million (approximately \$73.2 million current and \$414.7 million long-term) and approximately \$487.4 million (approximately \$73.1 million current and \$414.3 million long-term) at December 31, 2012 and 2011, respectively. Such amounts represent the actuarially determined present value, discounted at approximately 3.5% to 5.0% at December 31, 2012 and 4.0% to 5.0% at December 31, 2011, respectively, of insurance claims that are anticipated to be covered by insurance. The amounts reported in the December 31, 2012 and 2011 consolidated statements of financial position for estimated insurance claims receivable and estimated insurance claims liabilities reflect the financial impact of the Medical Center's employed physicians, as well as the effects of providing patient care in Bronx County, where malpractice premiums are among the highest in New York State and the nation.

During the year ended December 31, 2012, the Medical Center recorded approximately \$17.0 million of malpractice insurance program adjustments associated with investment gains in the accompanying consolidated statement of operations. During the year ended December 31, 2011, the Medical Center recorded approximately \$25.9 million of malpractice insurance program adjustments associated with investment losses in the accompanying consolidated statement of operations. The losses during the year ended December 31, 2011 were associated with an earnings shortfall. The Medical Center is required to fund the earnings shortfall ratably over the ensuing three years subject to financial market performance. At December 31, 2011, approximately \$6.5 million was reflected in other payables and accrued expenses and approximately \$19.4 million was reflected in non-current defined benefit and postretirement health plan and insurance liabilities in the accompanying statements of financial position. At December 31, 2011, the liability was fully funded as approximately \$25.9 million was reflected in assets limited as to use in the accompanying consolidated statement of financial position. At December 31, 2012, the earnings rate shortfall was reduced to approximately \$2.5 million due to funding made by the Medical Center and favorable investment earnings and is reported as a component of other payables and accrued expenses.

At December 31, 2012, the Medical Center had a letter of credit from a bank aggregating approximately \$1.0 million, which expires December 15, 2013, for the benefit of its captive insurance companies. The outstanding letter of credit was secured by approximately \$1.2 million of marketable securities held as collateral in the consolidated statement of financial position at December 31, 2012.

## Notes to Consolidated Financial Statements (continued)

#### 9. Contingencies and Other (continued)

At December 31, 2012 and 2011, approximately 66% of the Medical Center's employees were covered by collective bargaining agreements. The Medical Center entered into a new collective bargaining agreement with NYSNA in January 2012. The new agreement will expire on December 31, 2014. Approximately 14% of the Medical Center's employees are covered by the agreement with NYSNA. The collective bargaining agreement with 1199SEIU will expire in April 2015.

In connection with agreements entered into between MIPA and several health insurance companies, the Medical Center has agreed to guarantee the performance and payment of certain hospital, physician and administrative services.

#### 10. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the Medical Center measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Medical Center's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Medical Center follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

## Notes to Consolidated Financial Statements (continued)

#### 10. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Financial assets carried at fair value, including assets invested in the Medical Center's defined benefit plan, are classified in the table below in one of the three categories described above as of December 31, 2012 and 2011:

	<b>December 31, 2012</b>							
		Level 1	]	Level 2	Level 3	Total		
				(In Tho	usands)			
Assets								
Cash and cash equivalents	\$	30,779	\$	_	<b>\$</b> -	\$ 30,779		
Marketable and other securities:								
Non-equity mutual funds:								
U.S. non-equity mutual funds		198,005		_	_	198,005		
Equity mutual funds:								
U.S. equity mutual funds		89,743		_	_	89,743		
Non-U.S. equity mutual funds		5,658		_	_	5,658		
U.S. Government agency mortgage-								
backed securities		_		44,120	_	44,120		
U.S. Treasury securities		201,553		_	_	201,553		
U.S. Government agency backed				44 400		44 400		
securities		-		41,488	_	41,488		
U.S. equity securities		39,726		_	_	39,726		
Corporate debt		378,938		_	_	378,938		
Interest and other receivables		9,616		_	_	9,616		
<b>Defined benefit plan assets</b>								
Cash and cash equivalents		792		_	_	792		
Alternative investments:								
Hedge funds (a)		_		4,559	_	4,559		
Private equity funds (b)		_		, <u> </u>	599	599		
Equity securities (c)		5,724		_	_	5,724		
Equity mutual funds (d)		2,108		_	_	2,108		
Non-equity mutual funds		2,707		_	_	2,707		
Collective trust funds (e)		_		3,458	_	3,458		
Debt securities (f)		1,833		_		1,833		
Total financial instruments, at fair value	\$	967,182	\$	93,625	\$ 599	\$ 1,061,406		
	_		_	·	·	·		

## Notes to Consolidated Financial Statements (continued)

#### 10. Fair Value Measurements (continued)

		Decembe	r 31,	, 2011	
	Level 1	Level 2	Ι	Level 3	Total
		(In Tho	usar	ıds)	
Assets					
Cash and cash equivalents	\$ 26,855	\$ _	\$	_	\$ 26,855
Marketable and other securities:					
Non-equity mutual funds:					
U.S. non-equity mutual funds	162,264	_		_	162,264
Equity mutual funds:	02.722				00.500
U.S. equity mutual funds	82,722	_		_	82,722
Non-U.S. equity mutual funds	2,895	_		_	2,895
U.S. Government agency mortgage-		C4 057			(4.057
backed securities	101 516	64,857		_	64,857
U.S. Treasury securities	191,516	_		_	191,516
U.S. Government agency backed securities		82,333			82,333
U.S. equity securities	1,852	02,333		_	1,852
Corporate debt	290,213				290,213
Other	247	_		_	247
Other	247				2-7
Defined benefit plan assets					
Cash and cash equivalents	346	_		_	346
Alternative investments:					
Hedge funds (a)	_	4,182		_	4,182
Private equity funds (b)	_	_		450	450
Equity securities (c)	5,278	_		_	5,278
Equity mutual funds (d)	1,658	_		_	1,658
Non-equity mutual funds	2,909	_		_	2,909
Collective trust funds (e)	_	3,155		_	3,155
Debt securities (f)	 1,847			_	1,847
Total financial instruments, at fair value	\$ 770,602	\$ 154,527	\$	450	\$ 925,579

<sup>(</sup>a) Hedge fund investments consisting primarily of publicly traded equity holdings with both long and short positions.

<sup>(</sup>b) Venture capital partnerships.

<sup>(</sup>c) Includes small and large cap common stock of corporations primarily domiciled in the United States.

<sup>(</sup>d) Includes investments in mutual funds that invest primarily in domestic large cap common stock.

<sup>(</sup>e) Collective trusts invest primarily in common stock of corporations domiciled in the United States.

<sup>(</sup>f) Includes investments in corporate bonds.

## Notes to Consolidated Financial Statements (continued)

#### 10. Fair Value Measurements (continued)

The Medical Center's alternative investments and collective trusts, excluding those within the defined benefit plan, are reported using the equity method of accounting and, therefore, are not included in the tables above.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Level 3 assets consist of alternative investments included in the defined benefit plan assets, the valuation for which is described in Note 8. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the years ended December 31, 2012 and 2011:

	2	2012		2011	
	(In Thousands)				
Fair value at January 1	\$	450	\$	338	
Actual return on plan assets sold during year		<b>(4)</b>		(38)	
Actual return on plan assets held at end of year		32		39	
Purchases, sales, and settlements, net		121		111	
Fair value at December 31	\$	599	\$	450	

## Notes to Consolidated Financial Statements (continued)

#### 10. Fair Value Measurements (continued)

The carrying values and fair values of the Medical Center's financial instruments that are not required to be carried at fair value are as follows at December 31:

	20			2011					
	Fair Carry Value Valu				(	Carrying Value			
	 (In Thousands)								
Long-term debt	\$ 605,408	\$	578,767	\$	612,744	\$	589,966		

The fair value of the Medical Center's bonds payable is based on quoted market prices for the related bonds. The fair value of other debt is based upon discounted cash flow analyses, using estimated borrowing rates for similar types of debt. Fair value of bonds payable is classified as Level 1, while fair value of other debt is classified as Level 2.

#### 11. Concentration of Credit Risk

At December 31, 2012 and 2011, excluding investments in bond mutual funds, approximately 34% and 46%, respectively, of the Medical Center's marketable securities were issued by either the United States Government or its agencies.

At December 31, 2012 and 2011, significant concentrations of receivables for patient care include approximately 25% and 28% from Medicaid, 12% and 14% from Medicare and 61% and 56% from commercial and managed care organizations, respectively, of which no individual commercial or managed care organization equaled 10% or greater.

Net patient service revenue from the Medicare and Medicare managed care programs accounted for approximately 31% and 36%, and the Medicaid and Medicaid managed care programs accounted for approximately 33% and 32% of the Medical Center's net patient service revenue for the years ended December 31, 2012 and 2011, respectively. No other specific payor exceeded 10% of net patient service revenue.

## Notes to Consolidated Financial Statements (continued)

## 12. Other Operating Revenue

Other operating revenue included in the consolidated statements of operations for the years ended December 31, 2012 and 2011 consisted of the following:

	2012			2011
		(In The	ousai	nds)
Interest and dividend income	\$	18,161	\$	16,239
Equity earnings from investments		12,450		11,209
Government Electronic Health Record Incentive Program		11,969		5,681
Staff housing and other rental income		11,255		11,331
Continuing Medical Education programs		10,908		14,371
Information system services		5,059		4,092
Net assets released from restrictions used for operations		4,376		4,814
Parking revenue		4,316		4,358
Cafeteria revenue		3,805		3,741
Patient care quality incentive revenue		2,454		6,102
All other		17,676		20,666
	\$	102,429	\$	102,604

Supplementary Information and Reports of Independent Auditors

# Schedule of Expenditures of Federal Awards

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Health and Human Services Administration for Children and Families Direct Program:			
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		\$ 903,744
Pass-through program - New York City Human Resources Administration:			
Temporary Assistance for Needy Families	93.558	CT-20111434071	163,132
Pass-through program - New York City Administration for Child Services:			
Social Services Block Grant	93.667	068-20120000464	288,036
Subtotal Pass-Through Programs  Total Administration for Children and Families			451,168 1,354,912
Total Administration for Children and Families			1,334,912
Centers for Medicare and Medicaid Services Pass-through program – New York City Human Resources Administration:			
Medical Assistance Program	93.778	CT-20111434071	225,277
Pass-through program – New York State Department of Health:			
Medical Assistance Program	93.778	C023917	30,877
<b>Total Centers for Medicare and Medicaid Services</b>			256,154
Centers for Disease Control and Prevention Direct Programs:			
Global AIDS	93.067		701,618
HIV Prevention Activities Non-Governmental Organization Based	93.939		227,784
Subtotal Direct Programs	93.939		929,402
Pass-Through Programs: Pass-through program – New York City Fire Department:			,
Occupational Safety and Health Program	93.262	U10OH00824205W1	1,613,804

# Schedule of Expenditures of Federal Awards (continued)

CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
93.268	Various	\$ 6,576,483
93.283	8182-S07	126,908
93.939	U65PS00351402	23,737 8,340,932 <b>9,270,334</b>
93.110		406,087
93.153		2,055,110
93.250		149,947
93.501		266,104
93.884		323,541
93.918		835,726
93.924		347,234
93.928		22,503 4,406,252
	93.268  93.283  93.939  93.110  93.153  93.250  93.501  93.884  93.918  93.924	93.268 Various  93.283 8182-S07  93.939 U65PS00351402  93.110  93.153  93.250  93.501  93.884  93.918  93.924

# Schedule of Expenditures of Federal Awards (continued)

U.S. Department of Health and Human Services			
(continued)			
Health Resources and Services Administration			
(continued)			
Pass-through program – March of Dimes:			
Maternal and Child Health Federal Consolidated	02.110	1122MC12707	¢ 92.254
Programs	93.110	U33MC12786	\$ 83,254
Pass-through programs – Albert Einstein College of Medicine:			
Maternal and Child Health Federal Consolidated		T / 03 / 00 / 00	
Programs	93.110	R4OM23629 U43MC18276 T73MC00027	335,383
ARRA – Grants for Primary Care Medicine and			
Dentistry Training and Enhancement	93.403	D5DHP19234	24,000
·			
Pass-through program – Columbia University:	00115	#XX 4 4 XX 4 000 F14 00	27. 400
AIDS Education and Training Centers	93.145	5H4AHA00071-03	35,698
Pass-through programs – Bronx Community Health Network:			
ARRA – Grants to Health Center Programs	93.703	1HBCS12376-01-00	252,446
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00521	868,109
Services with respect to Til v Disease	73.716	11/011A00321	000,107
Special Projects of National Significance	93.928	H97HA15152	116,510
Pass-through programs – New York State Department of			
Health: AIDS Institute:	02.017	2<25.04/05	256160
HIV Care Formula Grants	93.917	3625-04/05 3425-04/05	356,160
Pass-through program – New York State Genetic			
Services:  Maternal and Child Health Services Block Grants to the			
States	93.994	C022462	187,994
Subtotal Pass-Through Programs	75.771	C022 102	2,259,554
Total Health Resources and Services Administration			6,665,806

# Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)  Health Centers Cluster  Direct Program:  Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)  Pass-Through Programs – Bronx Community Health	93.224		\$ 2,656,286
Network: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	1H80CS00626CO	2,949,118
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program Total Health Centers Cluster	93.527	3H80CS00626	332,617 <b>5,938,021</b>
Research and Development Cluster			
Direct Programs: Food and Drug Administration Research	93.103		75,432
Environmental Health	93.113		86,167
Cancer Cause and Prevention Research	93.393		733,555
ARRA – Trans – NIH Recovery Act Research Support	93.701		441,010
Blood Diseases and Resources Research	93.839		154,633
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		1,953,136
Allergy, Immunology and Transplantation Research	93.855		3,857,762
Biomedical Research and Research Training	93.859		142,473
Aging Research	93.866		71,024
Inhibition in Systematic Juvenile Arthritis Subtotal Direct Programs	93.RD		769,091 8,284,283

# Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federa Expendit	
U.S. Department of Health and Human Services (continued)				
Research and Development Cluster (continued)				
Pass-through program – Johns Hopkins University:				
Research on Healthcare Costs, Quality and Outcomes	93.226	HH290201100007C	\$ 75,	849
Pass-through program – Health Research Inc.:				
Research on Healthcare Costs, Quality and Outcomes	93.226	4227-02/03	43,	600
Pass-through program – Albert Einstein College of Medicine:				
National Center on Sleep Disorders Research	93.233	1RO1HL105212-01	95,	428
Pass-through program – University of Illinois:				
Mental Health Research Grants	93.242	R01MH089830	12,	086
Pass-through programs – Albert Einstein College of Medicine:				
Drug Abuse and Addiction Research Programs	93.279	1P20DA02614901 1R25DA023021-01 1R3DA03106601 1K23DA0345419	86,	324
Discovery and Applied Research for Technological				
Innovations to Improve Human Health	93.286	1R01EB009040-01	47,	315
Minority Health and Health Disparities Research	93.307	5P60MD000514-08	19,	967
National Center for Research Resources	93.389	5UL1RR025750	8,	592
Cancer Cause and Prevention Research	93.393	R01CA13301001A 5R01CA142942 1R0CA13301001A 1R21CA16310001	112,	135
Pass-through program – Frontier Science:				
Cancer Detection and Diagnosis Research	93.394	U24CA114737	179,	993
Pass-through programs – Albert Einstein College of Medicine:				
Cancer Detection and Diagnosis Research	93.394	4R33CA12105103 5RC01CA136854 RO1CA07189	80,	640

# Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)			
Research and Development Cluster (continued)			
Pass-through programs – Frontier Science:			
Cancer Treatment Research	93.395	U10CA02111536 U10CA0211537 U10-CA01495838 U10CA021115 U10CA08680213S1	\$ 638,957
Pass-through program – Moffit: Cancer Treatment Research	93.395	RO1CA098473	30,986
Pass-through program – George Washington University: Cancer Treatment Research	93.395	U01CA066535	33,211
Pass-through program – National Childhood Cancer Foundation:			
Cancer Treatment Research	93.395	U10 CA 98543-03	10,928
Pass-through programs – Albert Einstein College of Medicine:			
Cancer Treatment Research	93.395	5D43CA153793 5P30CA013330	930,721
Cancer Centers Support Grants	93.397	5P30CA013330	366,977
Pass-through program – EMMES Corporation: Cancer Centers Support Grants	93.397	2U01CA12194704	156,597
Pass-through program – Albert Einstein College of Medicine:			
Cancer Research Manpower	93.398	1K12CA13278301A	223,982
Pass-through program – National Surgical Adjuvant Breast and Bowel Project			
Cancer Control	93.399	U10CA37377	4,206
Pass-through program – Albert Einstein College of Medicine:			
ARRA – Centers of Excellence	93.415	D3EHP16488	234,981
ARRA – Trans – NIH Recovery Act Research Support	93.701	1RC4MD00578301 3U10CA02111535S	44,435

# Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)			
Research and Development Cluster (continued)			
Pass-through program – Duke University:			
ARRA – Trans – NIH Recovery Act Research Support	93.701	1RC2AR05893401	\$ 6,542
Pass-through program – Westat:			
ARRA – Trans – NIH Recovery Act Research Support	93.701	U01HD040533092	274,536
1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	<i>y</i> 001	0011120.00000072	27.,000
Pass-through program – Olmsted Medical Center			
ARRA – Recovery Act Comparative Effectiveness			
Research – AHRQ	93.715	1RO1HS019408-01	34,157
Pass-through programs – Albert Einstein College of			
Medicine:			
Health Careers Opportunity Program	93.822	D18HP13629	38,981
110mm cm 0010 opportunity 110g.mm	ye.io22	2101111002	20,201
Cardiovascular Diseases Research	93.837	2T32HL00767521	125,865
		IRO1HL1021001	
		1KHL10579001	
Page through programs Mount Singi School of			
Pass-through programs – Mount Sinai School of Medicine:			
Cardiovascular Diseases Research	93.837	7RO1HL09694402	310,708
	<i>ye.</i> 667	7RO1HL102084	210,700
Pass-through program – University of Pittsburgh:			
Cardiovascular Diseases Research	93.837	5UO1H061744	5,643
Page through programs Albert Finetoin College of			
Pass-through programs – Albert Einstein College of Medicine:			
Lung Diseases Research	93.838	7R01HL08406005	213,457
8	,	7R01HL10871201	
		7R01HL08666704	
Pass-through program – Penn State University:	02.020	511011111 00 <i>66</i> 2204	1.610
Lung Diseases Research	93.838	5U011HL08662204	1,610
Pass-through program – Albert Einstein College of			
Medicine:			
Blood Diseases and Resources Research	93.839	5KL2RR0257749	137,372

# Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)  Research and Development Cluster (continued)  Pass-through program – University of Michigan:  Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	U54DK08391201	\$ 68,294
Pass-through programs – Albert Einstein College of Medicine:			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	95262661 T32DK00711036S 7RO1DK08559702 R21DK08944701 1K08DK09150703 5T32DK00711036 2P60DK02054134	455,685
Pass-through program – Children's Hospital of Philadelphia Research Institute: Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	5U01DK06617411	32,456
Pass-through program – Cleveland Clinic: Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1R56DK08499301	1,750
Pass-through program – Albert Einstein College of Medicine: Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5P30A105151907	110,364
Pass-through program – Children's Memorial Hospital of Cincinnati: Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	U01NS045911	167,055
Pass-through program – Rush University: Allergy, Immunology and Transplantation Research	93.855	1P01AI08297102	42,507

# Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Health and Human Services (continued) Research and Development Cluster (continued) Pass-through programs – Albert Einstein College of Medicine:			
Allergy, Immunology and Transplantation Research	93.855	5P30AI05151909 U01AI068641 T32AI070117-01A K12HD065742 1K23AI083088-01 IRO1AI08934901 5T32A107011704 IR01AI087465-01A1 UO1A10967299 1U19AI09117501	\$ 811,174
Pass-through program – University Medical and Dental College of New Jersey:			
Allergy, Immunology and Transplantation Research	93.855	1U01AI07841001	33,838
Pass-through program – University of Pittsburgh: Allergy, Immunology and Transplantation Research	93.855	7U01A107786702	39,289
Pass-through programs – Albert Einstein College of Medicine:			
Child Health and Human Development Extramural Research	93.865	R01HD063791 RO1HG006266 1K23HD067247 5U01HD04053312 K12HD49763 1R25HD068835 5RO1HD05369305 2U011HD040499 K12HD000849 2U1HD040474 R01HD053693 R01HD049763	1,216,974

# Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Health and Human Services (continued) Research and Development Cluster (continued)			
Pass-through programs – Albert Einstein College of			
Medicine: Aging Research	93.866	5T32AG03693501 RO3AG040673 5P01AG3178202 RO1AG035117 45T32AGO23475	\$ 102,557
Pass-through program – University of Wisconsin: Aging Research	93.866	1 R01AG029624-1	13,346
Pass-through program – Public Health Solutions: National Bioterrorism Hospital Preparedness Program	93.889	1210MONTE_006	199,424
Pass-through programs – Albert Einstein College of Medicine: National Institutes of Health Acquired Immunodeficiency Syndrome Research Loan Repayment Program	93.936	UO1A1068619	216,686
Pass-through program – New York State Department of Health Bureau of STD Control: Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977	C024657	504,987
Pass-through program – New York State Genetic Services: Maternal and Child Health Services Block Grants to the States	93.994	C023840	78,276
Pass-through programs – Boston University: Boston University Sub-K reductions of Infection	93.RD	HHSA29020060001	286,968
Boston University Reducing C Diff Infections Subtotal Pass-through programs	93.RD	HHSA29020060001	232,878 9,201,289
Total U.S. Department of Health and Human Services			40,970,799

## Schedule of Expenditures of Federal Awards (continued)

#### Year Ended December 31, 2012

Federal Grantor/Program Title or Cluster	CFDA/Contract Number	Pass-Through ID Number	Federal Expenditures
U.S. Department of Defense Direct program: Military Medical Research and Development Total U.S. Department of Defense Total Research and Development Cluster	12.420		\$ 1,736,630 1,736,630 19,222,202
<ul> <li>U.S. Department of Agriculture</li> <li>Pass-Through Program – New York State Department of Health Food and Nutrition Service:</li> <li>Special Supplemental Nutrition Program for Women, Infants and Children</li> <li>Total U.S. Department of Agriculture</li> </ul>	10.557	C023629	12,505,616 12,505,616
U.S. Department of Labor Direct Program: ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Total U.S. Department of Labor	17.275		1,975,602 1,975,602
<ul> <li>U.S. Department of Housing and Urban Development Mortgage Insurance Hospitals (Note 3) Supplemental Loan Insurance Multifamily Rental Housing (Note 3)</li> <li>Total Expenditures of Federal Awards</li> </ul>	14.128 14.151		(A) (B) \$ 57,188,647

<sup>(</sup>A) At December 31, 2012, the outstanding balance of the Federal Housing Administration Section 242 Mortgage Insurance Program Loan was approximately \$112,574,000.

See accompanying notes.

<sup>(</sup>B) At December 31, 2012, the outstanding balance of the Federal Housing Administration Section 241 Mortgage Insurance Program Loan was approximately \$329,992,000.

#### Notes to Schedule of Expenditures of Federal Awards

December 31, 2012

#### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the Federal grant activity of Montefiore Medical Center and its controlled organizations (the Medical Center) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

Awards for reimbursable expenditures involving the U.S. Department of Homeland Security-Federal Emergency Management Agency (FEMA) are reported by the Medical Center on the Schedule in the year that FEMA approves the applicable Award Worksheet, pursuant to guidance issued by the U.S. Department of Homeland Security. The Medical Center incurred certain costs in 2012 which are reimbursable by FEMA, however, awards for such costs were approved by FEMA in 2013 and, accordingly, no expenditures are included on the accompanying Schedule for the year ended December 31, 2012.

#### 2. Food and Nutrition Awards

During the year ended December 31, 2012, the Medical Center participated in the New York State Department of Health, Special Supplemental Nutrition Program for Women, Infants and Children (WIC) through the receipt and distribution of food checks. The United States Department of Agriculture has determined that such WIC food instruments are considered "property in lieu of money" and, therefore, should be considered part of the subgrant received by the Medical Center. The value of WIC food instruments redeemed under the WIC program is as follows:

	Federal CFDA Number	Federal Expenditures for the Year Ended December 31, 2012
United States Department of Agriculture:		
Passed-through New York State Department of Health		
Special Supplemental Nutrition Program for Women,		
Infants and Children	10.557	\$ 12,505,616

## Notes to Schedule of Expenditures of Federal Awards (continued)

December 31, 2012

#### 2. Food and Nutrition Awards (continued)

The total amount reported as Federal awards above represents the value of food checks redeemed plus administrative costs (\$1,840,027) for the year ended December 31, 2012. As state funds are commingled with the Federal funds received by New York State, percentages (83.95% for administrative costs and 100% for the value of checks redeemed for Federal fiscal year ended 2012) were applied to determine the total amount of Federal funds to be reported above. These percentages were supplied by the New York State Department of Health.

#### 3. U.S. Department of Housing and Urban Development Mortgage Insurance Program

The Medical Center has five mortgage loans insured under the provisions of the U.S. Department of Housing and Urban Development—Federal Housing Administration Section 241 and 242 mortgage insurance programs. At December 31, 2012 and 2011, the outstanding balances of the loans totaled approximately \$442,566,000 and \$463,645,000, respectively. The U.S. Department of Housing and Urban Development (HUD) has determined that the mortgage insurance programs are to be considered a federal award for purposes of compliance with U.S. Office of Management and Budget Circular A-133.

Pursuant to the agreements related to the mortgages, the Medical Center is, among other things, required to maintain mortgage reserve funds, required to maintain a specific debt service coverage ratio and other financial ratios, and required to obtain approval from HUD to incur additional debt above specified levels if profitability requirements are not met. The loans are collateralized by substantially all of the property, buildings and equipment, and gross receipts derived from operations. At December 31, 2012, the Medical Center was in compliance with the various requirements of its loan agreements.

# Notes to Schedule of Expenditures of Federal Awards (continued)

## December 31, 2012

## 4. Subrecipients

Of the federal expenditures presented in the Schedule, the Medical Center provided federal awards to subrecipients as follows:

	Federal CFDA	Amount Provided to Subrecipients	
	Number		
Research and Development Cluster:			
Food and Drug Administration Research	93.103	\$ 106,517	
Environmental Health	93.113	19,882	
ARRA – Trans-NIH Recovery Act Research Support	93.701	239,704	
Blood Diseases and Resources Research	93.839	30,274	
Extramural Research Programs in the Neurosciences and			
Neurological Disorders	93.853	1,351,699	
Allergy, Immunology and Transplantation Research	93.855	285,497	
Inhibition in Systematic Juvenile Arthritis	93.RD	575,422	
		2,608,995	
Coordinated Services and Access to Research for Women,			
Infants, Children, and Youth	93.153	990,812	
Special Projects of National Significance	93.928	5,375	
		\$ 3,605,182	



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# Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees Montefiore Medical Center

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montefiore Medical Center and its controlled organizations (the Medical Center), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 18, 2013

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## Report of Independent Auditors on Compliance with Requirements for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Trustees Montefiore Medical Center

#### Report on Compliance for Each Major Federal Program

We have audited Montefiore Medical Center and its controlled organizations' (the Medical Center) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended December 31, 2012. The Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.



#### Opinion on Each Major Federal Program

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

#### **Report on Internal Control Over Compliance**

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

September 27, 2013

Ernst + Young LLP

# Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

## Part I—Summary of Auditor's Results

## Financial Statements Section

Type of auditor's rep	ort issued:	Unmodified		
Internal control over Material weakness( Significant deficier Noncompliance ma	(es) identified?	yes yes yes	<u> </u>	no none reported no
Federal Awards Sect	tion			
Internal control over Material weakness( Significant deficier  Type of auditor's rep	(es) identified?	yes yes	<b>✓</b>	no none reported
programs:		Unmodified		
-	sclosed that are required to be reported section .510(a) of OMB Circular or programs:	yes	_ ✓	_ no
CFDA Numbers	Name of Federal Program or Clus	ter		
17.275	ARRA – Program of Competitive Gr in High Growth and Emerging Indu	rants for Worker	Trainin	g and Placement
93.224 & 93.527	Health Centers Cluster			
93.778	Medical Assistance Program			
14.128	Federal Housing Administration Sec Mortgage Insurance Hospitals	tion 242 Mortgaş	ge Insur	ance Program/
14.151	Federal Housing Administration Sec Supplemental Loan Insurance Mult		-	ance Program/

## Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2012

Part I—Summaı	v of Auditor's	Results	(continued)
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Dollar threshold used to distinguish between Type A a	nd Type B program	ns: \$1,715,659*	
Auditee qualified as low-risk auditee?	yes	no	
*Threshold calculation excludes the Federal Housin Mortgage Insurance Programs.	ng Administration	Section 241 and 24	-2
Part II – Financial Statement Findings Section			

#### Part II – Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards require reporting in a Circular A-133 audit.

None noted.

#### Part III - Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None noted.

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